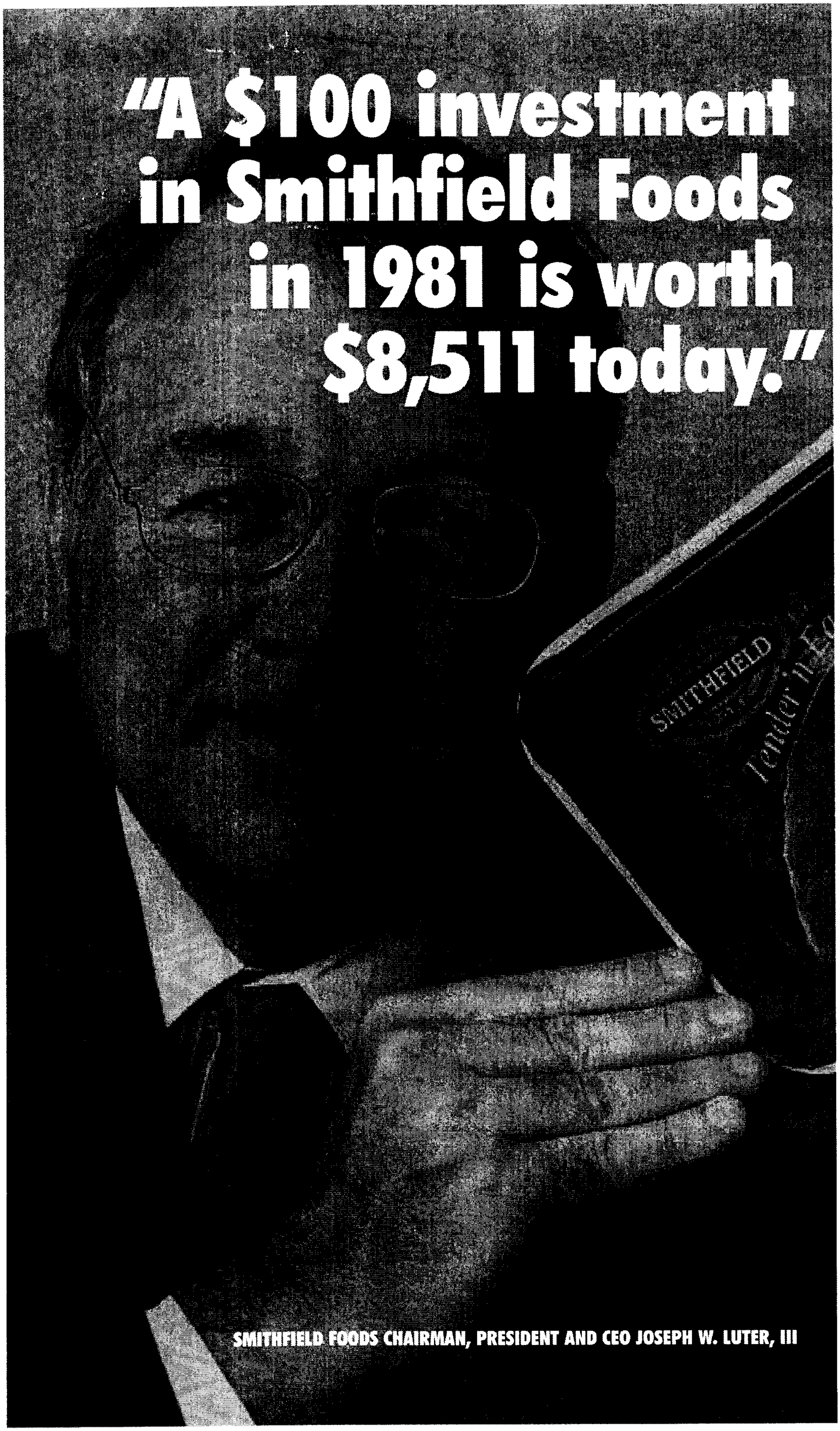

"A $100 investment
in Smithfield Foods
in 1981 is worth
$8,511 today."
SMITHFIELD
SMITHFIELD FOODS CHAIRMAN, PRESIDENT AND CEO JOSEPH W. LUTER, III

Reaping the Rewards of Vertical Integration

In 1990, Smithfield Foods flew 2,000 sows specially bred by Britain's National Pig Development Company (NPD) to the United States. Armed with exclusive U.S. rights to their genetic lines, Smithfield envisioned that these NPD sows would form the nucleus of a herd that was significantly leaner than any other commercially raised hogs available.

Six years later, Smithfield Foods and hog raising partner Carroll's Foods had successfully produced enough NPD hogs to launch Smithfield Lean Generation Pork™, the first fresh pork to be certified by the American Heart Association for its low fat, sodium and cholesterol content. In fiscal 2001, this product's sales volume topped 100 million pounds.

"Lean Generation is an outstanding example of why we began vertically integrating this company," says Smithfield Foods Chairman, President and Chief Executive Officer Joseph W. Luter, III. "It has allowed us to develop consistent, branded products that are truly different from anything else in the marketplace. As a result, we can command a premium for fresh pork, something that has historically been thought of as a commodity item."

Today, Smithfield Foods produces 12 million hogs and processes 20 million annually, making it the world's largest vertically integrated pork processor. Through its hog raising and pork processing subsidiaries, the company can exercise complete control over its products—from their genetic lines and nutritional regimen to how they are processed, packaged and delivered to customers.

"We like to say that vertical integration gives us control over our pork products from squeal to meal," observes Lewis Little, president of Smithfield Packing Company, Smithfield Foods' largest processing subsidiary.

The Key to Quality and Consistency

Vertical integration's benefits are many, including less earnings volatility and stronger operational efficiencies. However, quality and consistency—a long-standing issue in the pork industry—has been this strategy's Holy Grail.

"One of the main reasons new customers give us for turning to Smithfield Packing is the consistently high level of quality we can deliver," says Little. "Moreover, without that, you can't successfully sell branded products. And our goal is to put one of our brand names on as many of our products as possible so that consumers look for them."

The strategy is clearly paying off. Four years ago, branded items accounted for a mere 13 percent of Smithfield Foods' fresh pork volume of

Liquidity and Capital Resources

The pork processing industry is characterized by high sales tonnage and rapid turnover of inventories and accounts receivable. Because of the rapid turnover rate, the Company considers its pork processing inventories and accounts receivable highly liquid and readily convertible into cash. Borrowings under the Company's credit facilities are used to finance increases in the levels of inventories and accounts receivable resulting from seasonal and other market-related fluctuations in raw material costs. The demand for seasonal borrowings usually peaks in early November when inventories are at their highest levels, and borrowings are repaid in January when the related accounts receivable are collected.

Cash provided by operations increased to $218.3 million for fiscal 2001 from $125.2 million in fiscal 2000. This increase is primarily attributed to the impact of sharply higher earnings, net of a gain on the sale of IBP common stock. Cash used in operating assets and liabilities was $56.4 million in fiscal 2001 compared to $79.5 million in fiscal 2000 primarily due to less cash deposited for commodity hedging commitments.

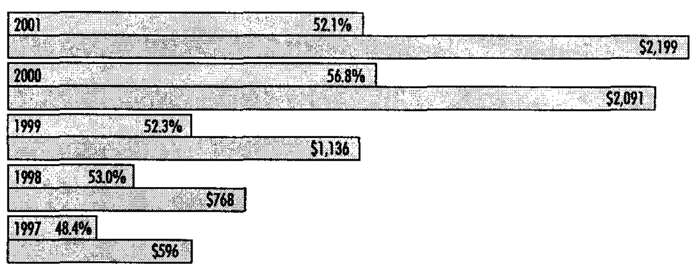
In fiscal 2001, cash used in investing activities was $59.8 million compared to $192.3 million in fiscal 2000. The decrease is primarily due to proceeds from the sale of IBP common stock less the cost of shares purchased during fiscal 2001 compared to the cost of IBP shares purchased in fiscal 2000. Capital expenditures totaled $144.1 million related to fresh pork and processed meats expansion projects and plant improvements. During fiscal 2001, the Company invested $29.7 million in business acquisitions, primarily Mitchell's. In addition, the Company had proceeds of $38.9 million during fiscal 2001 from the sale of property, plant and equipment primarily the result of the sale of a plant in Canada. As of April 29, 2001, the Company had definitive commitments of $105.0 million for capital expenditures primarily for processed meats expansion, production efficiency projects and additional hog production facilities in Utah.

Financing activities used $152.4 million in fiscal 2001 as funds provided by operations and the sale of IBP common stock were used to repay long-term debt and capital lease obligations as well as repurchase 2.6 million shares of the Company's common stock. As of April 29, 2001, the Company had acquired 5.6 million shares of its common stock under an 8.0 million share repurchase program. As of April 29, 2001, the Company had unused availability of $219.4 million under its primary long-term credit facility. Management believes that through internally generated funds and access to global credit markets, funds are available to adequately meet the Company's current and future operating and capital needs.

Subsequent Events

On June 22, 2001, the Company completed the acquisition of Moyer Packing Company ("Moyer"), a closely held beef processor with annual sales of approximately $600.0 million for $89.5 million and the assumption of debt. Moyer is the ninth largest beef processor in the U.S. and the largest in the Eastern United States. Operations include beef processing, fabrication and further processing, as well as hide processing and rendering operations.

The Company has announced an offer to acquire all of the common shares of Schneider that it does not already own for approximately 1.4 million shares of the Company's common stock. The Company expects to complete the tender offer during the second quarter of fiscal 2002.



Long-Term Debt and Capital Lease Obligations to Total Capitalization

IN MILLIONS — LONG-TERM DEBT AND CAPTIAL LEASE OBLIGATIONS — TOTAL CAPITALIZATION

Note 10
Related Party Transactions

A director of the Company holds an ownership interest in Murfam Enterprises, LLC ("Murfam") and DM Farms, LLC. These entities own farms that produce hogs under contract to the Company. Murfam also produces and sells feed ingredients to the Company. In fiscal 2001 and 2000, the Company paid $25,236 and $7,565, respectively, to these entities for the production of hogs and feed ingredients. In fiscal 2001 and 2000, the Company was paid $16,325 and $3,382 by these entities for associated farm and other support costs. The Company believes that the terms of the arrangements are at prevailing market prices.

A director of the Company is the chairman, president and chief executive officer and a director of Prestage Farms, Inc. ("Prestage"). The Company has a long-term agreement to purchase hogs from Prestage at prices that, in the opinion of management, are equivalent to market. Pursuant to this agreement with Prestage, the Company purchased $157,510, $138,705 and $106,365 of hogs in fiscal 2001, 2000 and 1999, respectively.

Note 11
Nonrecurring Gain

In fiscal 2001, the Company sold 8,193 shares of IBP, inc. ("IBP") common stock resulting in a nonrecurring, pretax gain of $79,019. Expenses incurred during the fiscal year related to the attempted merger with IBP and the expenses of the subsequent sale of these shares totaled $7,500. The after-tax gain on the sale, net of expenses, amounted to $45,200, or $.82 per diluted share.

Note 12
Regulation and Litigation

Like other participants in the meat processing industry, the Company is subject to various laws and regulations administered by federal, state and other government entities, including the Environmental Protection Agency ("EPA") and corresponding state agencies as well as the United States Department of Agriculture, the United States Food and Drug Administration and the United States Occupational Safety and Health Administration. Management believes that the Company presently is in compliance with all such laws and regulations in all material respects, and that continued compliance with these standards will not have a material adverse effect on the Company's financial position or results of operations. The EPA has recently proposed to extensively modify its regulations governing confined animal feeding operations. These proposed modifications are scheduled to be finalized by December 2002 and could have a significant impact on the Company's hog production operations. The Company is committed to responsible environmental stewardship in its operations.

The Company from time to time receives notices from regulatory authorities and others asserting that it is not in compliance with such laws and regulations. In some instances, litigation ensues, including the matters discussed below. Although the suits below remain pending and relief, if granted, could be costly to the Company, the Company believes that their ultimate resolution will not have a material adverse effect on the Company's financial position or annual results of operations.

In United States of America v. Smithfield Foods, Inc. et al., the United States District Court for the Eastern District of Virginia imposed a $12,600 civil penalty on the Company and two of its subsidiaries for Clean Water Act violations at the Company's Smithfield, Virginia processing plants. The Company recorded a nonrecurring charge of $12,600 during fiscal 1998 with respect to this penalty. In September 1999, the United States Court of Appeals for the Fourth Circuit affirmed the District Court's determination of liability but remanded the penalty determination to the District Court with instructions to recalculate the civil penalty solely to